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Part I
Transforming Management Practices in Japanese Workplaces
1
Japanese Workplaces in Transition

The rise and fall of Japanese companies

Japanese companies and Japanese styles of management attracted attention from business leaders and scholars and even the general public around the world when, after Japan achieved an “economic miracle,” the then Harvard University sociology professor Ezra F. Vogel (1979) extoled the nation in the late 1970s by using the expression: “Japan as number one.” The Japanese economy rose from the ashes after World War II and enjoyed high growth throughout the 1960s, achieving an average annual growth in gross domestic product (GDP)—the value of all goods and services a nation generates—of about 10 percent. During the same period, Japanese companies gained a large share of the global market for products such as automobiles, motorcycles, electrical appliances, precision instruments, textiles, steel, and shipbuilding. The nation expanded sufficiently to become the world’s second largest economy after the United States in 1968. During the 1970s, the US’s trade imbalance with Japan approached 10 billion dollars a year. The term “Japanese economic miracle” was coined in reference to the nation’s spectacular postwar economic growth.

The nation’s high economic growth ended at the start of the 1970s. The economy experienced a stable growth period from the mid 1970s through to the early 1990s and expanded about 4 percent annually during this period. Nevertheless, Japanese companies still stood out, and played a leading role, in the international business arena. In its survey on the competitiveness of nations, the World Competitiveness Yearbook, the Switzerland-based International Institute for Management Development (IMD) ranked Japan in first position in the early 1990s. Due to the success of Japanese firms, company executives, management
scholars, business consultants, and other professionals (e.g., business journalists) around the world took a strong interest in Japanese styles of management and many books on the subject were published. These people asserted that Japanese styles of management lay behind the success of Japanese companies and even the nation’s economy.

In the late 1980s, the Japanese economy witnessed stock and real estate prices continuing to increase in what was called the “bubble economy.” These prices more than doubled during the period 1988 to 1990 when Japan’s share of world exports was at its peak. Japan appeared to be on the brink of surpassing the United States to become the world’s largest economy. However, the bubble economy abruptly burst in the early 1990s. Thereafter, Japan’s economic growth rate plunged to 1 percent, a rate which persisted throughout the 1990s. During this period, the Japanese economy never bounced back from its economic stagnation, and thus it experienced a “lost decade.” As the Japanese economy weakened, many Japanese companies’ balance sheets deteriorated. The Japanese firms that had made an excessive investment in various business areas, including unprofitable ones, at the time of the bubble economy were shackled by the “three excesses” of overcapacity, overemployment, and overinvestment after the collapse of the bubble. Such companies had to dispose of these negative legacies of the bubble economy age in order to move forward. Although Japanese companies were known for their employment security, some of them had no choice but to streamline their business structure and even cut jobs due to the increased pressures on them from Japanese and non-Japanese shareholders to improve their earnings, which were substandard in comparison to those of foreign (e.g., US) companies.

Meanwhile, Japanese companies’ overseas competitors, especially those from the United States, regained their competitiveness against Japanese companies by taking several measures; for example, they delivered innovative and state-of-the-art products in the areas of microprocessors, personal computers (PCs), operating systems, and other information technology (IT)-based products. Japanese companies faced competition not only from these innovative American companies but also from South Korean and Taiwanese companies and other new global players that had not been prominent in international business settings in the 1980s. In the face of fierce challenges from these overseas competitors, Japanese companies gradually began to lose their global market shares to these new challengers as well. For example, Japanese semiconductor makers such as NEC Corp. and Toshiba Corp. dominated the global market from the mid 1980s through to the early 1990s.
However, in the early 1990s, Intel Corp., a US semiconductor maker, recaptured the number one position in the worldwide market share for semiconductor products that it had lost to those Japanese semiconductor manufacturers in the mid 1980s by delivering innovative and high value-added microprocessors. Taiwanese and South Korean semiconductor makers caught up with Japanese manufacturers and obtained a large portion of the global market for dynamic random-access memory (DRAM)—a commodity type of semiconductor products for speeding up processing in such products as PCs by temporarily storing data—in the 1990s even though this market had been dominated in the 1980s by Japanese semiconductor makers. They quickly developed the latest DRAM models and delivered a large volume of these products, the unit cost of which was considerably lower than that of the same products made by their Japanese counterparts, to the market. As Japanese companies lost momentum and showed a lack of competitiveness during the 1990s, business journalists and management scholars abroad and even at home started criticizing them and their management styles.

Even after the dawn of the new millennium, Japan’s economic growth still remained weak, with an average GDP growth of 2.1 percent per annum from 2003 to 2007. Among overseas markets, the North American market was lucrative for export-dependent Japanese companies such as automobile and electronics manufacturers. However, the US economy was hit hard by the collapse in September 2008 of Lehman Brothers Holdings Inc., then the fourth largest US investment bank. Consequently, Japanese companies lost opportunities to sell their products in the US market and posted poor quality of earnings in the last quarter of 2008 and throughout the following year. The Japanese economy lost steam, although it appeared to be finally getting out of its prolonged stagnation. The yen’s high surge against the US dollar in recent years has also reduced the competitiveness of Japanese companies. The Japanese currency hit a postwar high of 75.32 yen to the US dollar in Oceanian trading on October 31, 2011. The strength of the yen adversely affects the overseas earnings of Japanese exporters when these earnings are repatriated. They have to raise the prices of exported products to compensate for the loss caused by the yen’s appreciation, and this makes their products less cost-advantageous in overseas markets. In the meantime, among Japanese companies’ foreign competitors, South Korean automobile and electronics manufacturers are taking advantage of the depreciation of their nation’s currency, the won, against the US dollar and acquiring large portions of the global share for automobiles and electronic appliances that had previously been held by Japanese companies.
Japan’s GDP growth rate was –0.7 percent in 2009 and –5.2 percent in 2010. The Japanese economy has continued to shrink over the two decades since the collapse of the bubble economy, experiencing the “two lost decades.” Meanwhile, China has rapidly expanded its economy, gaining the position of the world’s second largest economy from Japan in 2010. Japan was ranked 26th out of 59 countries in the IMD’s 2011 World Competitiveness Yearbook, while other parts of Asia (namely, Singapore, Hong Kong, and Taiwan) were ranked in the top 10. Against the backdrop of the current situation regarding Japanese companies, business leaders, management scholars, and journalists from around the world have given much attention to companies in emerging economies such as China and India over the past decade. Meanwhile, they have shown little interest in Japanese companies and their management practices (Makino and Roehl, 2010).

The Japanese economy suffered its first trade deficit in over three decades in 2011 due to the disruption of supply chains caused by the earthquake and tsunami of March 11, a historic rise in the yen, and a sharp drop-off in global demand stemming from the euro financial crisis. Meanwhile, the nation has had to rely heavily on imported energy due to the nuclear crisis that followed the natural disasters.

**Shifting environments that awoke Japanese companies**

Over the past two decades, Japanese companies have been mired in prolonged stagnation at home and have faced fierce challenges from overseas competitors. However, in facing these woes, they have not merely weathered them and done nothing. In the wake of shifting environments, they have taken several measures and have attempted to regain their competitiveness, although the majority of Japanese companies are still struggling to survive.

As I suggested earlier, Japanese companies had been expanding their business areas into ones unrelated to their core operations and carrying unprofitable business areas when the bubble economy collapsed. Consequently, they had no choice but to realign, simplify, and streamline their business structure and even cut jobs in order to turn themselves around and survive their financial problems. Facing greater pressures from shareholders at that time, compared to earlier days when shareholders were acquiescent in Japanese business society, Japanese companies had to lay off part of their workforce. Many Japanese companies appeared to abandon the idea of job security which they had long espoused. However, the majority secured jobs for their core members
(i.e., permanent and regular employees) but did not guarantee jobs for nonpermanent and nonregular employees (e.g., part-time workers, contract workers, and temporary workers dispatched from personnel staffing agencies or subcontracted companies).

In recent times, Japanese companies have employed nonpermanent or casual employees for various reasons; for example, as their earnings have shrunk due to the prolonged economic slump, they cannot afford to employ a large number of regular workers who are assigned to peripheral jobs but receive generous wages and benefits. For these companies, carrying superfluous employees after seasonal demands have reached their peak is a financial burden; thus, they now hire casual and contingent workers as “seasonal workers” who are employed for a limited period (Fu, 2012). Hence, for more than a decade, the number of nonpermanent employees in Japanese workplaces has risen while the number of permanent employees has fallen (Fu, 2012).

With job security intact, at least for regular and core workers, Japanese companies have totally or partially changed the seniority system, one of the management policies which, along with job security, has long been espoused by Japanese companies since the end of World War II. Some Japanese companies have replaced the traditional Japanese seniority system with the American pay-for-performance style. One reason for this is their belief that the US Internet-based dot-com companies and other innovative companies located in Silicon Valley generate dynamism inside their organizations by means of meritocracy, thereby building up their competitiveness against their competitors, including Japanese companies. Other Japanese companies have not completely abandoned the seniority system; instead, they have added a flavor of meritocracy to their traditional seniority system. These Japanese companies learned indirectly by word of mouth or directly from their experiences that pay-for-performance policies do not necessarily work in Japan’s egalitarian society where harmony among people is highly valued. They have eclectically combined seniority- and merit-based principles in such a way that nonmanagerial employees are evaluated based on their seniority while managerial employees are assessed according to their performance outcomes. They have also added a flavor of meritocracy to the seniority system in such a way that they place the same weight on meritocracy as on seniority when evaluating employees.

Japanese companies, particularly those in the manufacturing sector, have made progress toward globalization over the past decade. Japanese manufacturers have transferred production facilities to overseas countries that provide abundant, cheap labor forces so that they can cut
costs and be more competitive against their rivals both at home and abroad. Their overseas production has accelerated in recent years as the yen has highly appreciated against the US dollar. Roughly 18 percent of all of the products made by Japanese companies in 2010 came from their overseas factories (Nikkei Newspaper, November 4, 2011). This figure is projected to reach over 20 percent in 2015, and this has raised the concern that the hollowing out of the Japanese manufacturing industry will accelerate. Japanese plants abroad, for instance in China, Southern Asian countries such as Thailand and Malaysia, and elsewhere, are typically responsible for mass-producing a large volume of goods for shipment to Japan and other marketplaces worldwide. A large number of the operators working in these plants work on long assembly lines. Meanwhile, homeland factories make a small number of high value-added products for shipment to the domestic market. Operators working in these factories are required to perform multiskilling tasks, in other words, to handle multiple work tasks in order to assemble various models of products in small-lot sizes.

The examples provided previously represent only some of the measures taken by Japanese companies in the wake of changes in their environments. They have taken numerous other measures, some radical enough to involve business restructuring and others benign enough to almost keep the status quo. These measures, both radical and benign, include reforming corporate governance, building partnerships with rivals both at home and abroad, concentrating resources on future promising business areas such as social infrastructures and solar panels, digitizing business transactions, halting new graduate recruitment, and cutting back on the cost of entertaining customers. These efforts demonstrate that in the face of several adversities, Japanese companies have transformed, and these transformations will not stop: Japanese companies and their workplaces are still transforming.

Prior studies (e.g., Haghirian, 2010; Miyoshi and Nakata, 2011; Numagami, Kawabe, and Kato, 2010) have attempted to examine whether and how Japanese companies have changed over past years in terms of business strategies, organizational structure, corporate governance, and the like. Unlike these previous studies in this area, in this book, I present the transformations of Japanese companies and workplaces that have taken place since the turn of the twenty-first century in terms of management practices and organizational culture. Some scholars (e.g., Jacoby, 2005) have examined the same issues that I address in this book, including human resource management (HRM) issues for Japanese companies, but they focused on the so-called HRM
policies formulated by HRM staff employees in company headquarters or by people in high-ranking positions within an organization. However, I focus more on operational HRM practices that are actually performed by people in their workplaces. Before describing the transforming landscape of Japanese workplaces, in the following sections I discuss traditional Japanese management and the traditional organizational culture of Japanese companies.

**Traditional Japanese management**

Traditional Japanese management is exemplified by the three pillars of Japanese management: lifetime employment, the seniority system, and enterprise unionism. These elements of traditional Japanese management correspond to parts of the organization-oriented employment system (Jacoby, 2005). Once new college or high school graduates have landed a job with Japanese companies, their employment is guaranteed until they reach retirement age, usually around the age of 60. Japanese employees whose jobs are secure can develop skills specific to their companies. These skills can be more broadly categorized as tacit knowledge as opposed to articulate knowledge (Nonaka, Toyama, and Hirata, 2008). Thus, such skills are difficult for competitors to emulate because they are tacit or hardly communicable and can only be shared between those who have spent years working together at the same workplace. Lifetime employment has been deemed to be superior because it can help to develop firm-specific skills (an aspect of tacit knowledge), thereby building and sustaining a company’s competitiveness. Not only can Japanese companies committed to job security promote the development of firm-specific skills, but they can also gain the loyalty of their employees in exchange for job security.

The seniority system is not used in isolation but rather together with lifetime employment. Given that people are employed until they reach retirement age, the seniority system is utilized. Alternatively, provided that employees are evaluated on the basis of their tenure or seniority, lifetime employment can be viable and effective. Employees are promoted to a higher position or paid a higher wage according to the length of their service to their companies, that is, how long they have worked for their current employers. Companies using the seniority system are unlikely to hire people from outside the company when a position is vacant; instead, they fill the vacancy by promoting an employee within the company. Thus, labor markets have been established inside Japanese firms, and this so-called internal labor market is a phenomenon unique to Japanese companies. Meanwhile, labor markets
have not developed as much outside Japanese companies. Internal labor markets have helped to develop firm-specific skills or tacit knowledge inside Japanese firms.

The last of the three pillars of Japanese management is enterprise unionism. Japanese companies have unions within the firm. In Japanese business society, employers bargain with representatives from company unions. Even if employees are members of an enterprise union, they can be promoted to a managerial position in the future. Thus, both Japanese general employees—whether union members or not—and managerial employees are concerned about the future of their company. Japanese unionized employees are not as hostile toward their company as their counterparts in the rest of world, where industrial unions are the norm and powerful (e.g., in the United States). Both nonmanagerial and managerial employees cooperate well with each other in Japanese companies, and this cooperation has forged a family-like or paternalistic atmosphere in Japanese workplaces.

These three pillars are all about the personnel policies that are formulated by those in charge of HRM at company headquarters, but they are not exactly the management practices that are actually implemented by people in the workplace. Numerous and various management practices are in place in Japanese workplaces. Some of these practices are employed behind the scenes and are not as well known as the three pillars, but they have had a significant effect on the success of Japanese companies. Among these management practices, team-based practices have been widely used among Japanese companies and can be regarded as crucial elements of traditional Japanese management in addition to the three pillars of Japanese management.

As can be seen in an automobile factory where workers assemble parts components, Japanese workers exercise their multiskilling ability and handle a wide range of work tasks. Their ability to perform multiskilling tasks allows for team-based or interdependent jobs and teamwork is a source of the high level of productivity and competitiveness demonstrated by Japanese companies. Jobs in these work environments are not demarcated as much as those in Western workplaces and are designed to be carried out by a team of workers. Helping colleagues with a problem on the same production line or in the same workplace and other team activities can facilitate team-based jobs; thus, teamwork, a practice popular in Japanese workplaces, is required to achieve team-based jobs. One reason why team-based jobs and practices are common among Japanese companies is that Japan is a collectivist society. Japanese workers are inclined to work together and are skilled at teamwork.
Table 1.1  The traditional styles of Japanese management

Among management policies, the three pillars of Japanese management:
- lifetime employment
- seniority system
- enterprise unionism

Among management practices, the following team-based practices:
- multiskilling tasks
- interdependent jobs
- teamwork
- autonomous team structures
- decisions made in the interest of the team
- improvement activities
- QC circles

Japan is also an egalitarian society, and the difference between managerial and general employees in terms of authority and remuneration is small. Accordingly, Japanese team structures are not that hierarchical and all employees are allowed to make decisions. The nature of Japanese teams involves a large amount of discretion or autonomy in decision-making. Decisions are occasionally group oriented in that each employee makes a decision in the interests of her or his team, not in his or her own interests.

Improvement activities are among the team-based management practices deemed to be common across Japanese companies. These activities are quite often performed off the line by a team of employees rather than by individual ones. Quality control (QC) activities represent one type of improvement activities and are prevalent in Japanese companies in both the manufacturing and nonmanufacturing sectors. These improvement activities are sometimes assessed on the basis of team performance, and members of a QC circle are thus rewarded according to the team's outcomes.

Team-based management practices have contributed to improved efficiency, as demonstrated particularly by Japanese companies in the manufacturing sector, and, eventually, to greater competitiveness. Table 1.1 summarizes the traditional styles of Japanese management.

Traditional organizational culture of Japanese companies

Japanese companies hold collectivist values because they are embedded in the regional context where Confucianism is traditionally espoused.
Japanese society is considered to share the same values as other Asian and Confucian countries and regions, such as China, South Korea, and Taiwan (House et al., 2004). Japanese employees are thus apt to act in the best interests of their group or organization rather than in their own best interests. Although it is regarded as being the same type of Confucian country as China, South Korea, and other Asian countries, Japan is also an egalitarian society and stresses harmony and equality among people to a greater extent than other Asian and Confucian countries. Thus, Japanese people working for Japanese companies dislike large differences in terms of wages, authority, and hierarchy. It is noted that Japanese companies care about equality among employees not only in terms of wages and authority but also in terms of company clothing, cafeterias, parking lots, and other symbols that have a profound effect on employees’ perceptions of the similarities or disparities in their workplaces. Thus, even Japanese rank-and-file workers are allowed to participate in decision-making. Compared to people and organizations in high power distance societies (e.g., China), both individual employees and work organizations in Japan can be characterized as discretionary and autonomous. Egalitarian values bolster the seniority system that is widely used in Japanese companies, but they could also cause performance-based promotion and remuneration to malfunction in the Japanese business context.

As Hofstede (1980) identified in his famous cross-culture studies, Japan is also characterized as a masculine society in the sense that, generally, males and their values are more likely to be favored than their female counterparts and female values. Masculinity prevails over femininity inside Japanese companies, and male employees traditionally dominate Japanese workplaces, in particular managerial or higher ranking positions. Japanese companies’ organizational culture means that it is more likely that male employees rather than female employees will occupy managerial positions and finally end up in the highest ranks of the organization.

The nature of an organizational culture can be characterized in terms of the extent to which it is homogenous or heterogeneous. The organizational culture of Japanese companies is traditionally homogenous and strong. Japanese society is known for its homogenization of cultural values. This stems from the fact that Japan’s geographic position, surrounded as it is by sea, insulates the nation from the rest of the world and that Japanese governments have traditionally prevented a massive influx of foreigners into the country. Consequently, the majority of the workforce in Japanese companies is composed of Japanese citizens.
This demographic composite has facilitated cultural homogenization in Japanese companies. Japanese employees share the nation’s cultural values and consequently their organization has become culturally homogeneous. This situation has helped to develop a strong culture in Japanese companies, through which people are well integrated.

In addition to the nation’s geographic position, Japanese management practices also seemingly aim to homogenize organizational culture, and these practices have further enhanced cultural homogeneity and strength in Japanese companies. Job security policies, one of the three pillars of Japanese management, prevent employees from being laid off. It is argued that as Japanese employees whose employment is secure are emotionally attached and committed to the goals and values of their organizations in return for their job security, a strong organizational culture is likely to develop within Japan’s organizations. The seniority system can also facilitate the development of strong organizational culture by promoting internal labor markets. Additionally, enterprise unionism can build a strong culture within a company by forging a family-like atmosphere in the workplace. Against the backdrop of these situations within Japanese firms, a homogeneous, strong culture is more likely to develop in these organizations. What is more, this strong culture has been considered to be a competitive edge for Japanese companies. Strong culture can motivate people to work harder or allow them to work without a bureaucratic control mechanism. A summary of the traditional organizational culture of Japanese companies is provided in Table 1.2.

**The purpose of this book**

As I have argued so far, Japanese companies have transformed and are transforming. In this book, I present the transformations that have taken place since the dawn of the new millennium and are currently

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**Table 1.2** The traditional organizational culture of Japanese companies

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| The nature of organizational culture:    |
| homogeneous and strong culture           |
taking place in Japanese workplaces in terms of management practices, particularly in the area of HRM, and organizational culture. I also empirically assess the effectiveness of the new approaches introduced by Japanese companies with regard to management practices and organizational culture based on my hypotheses and evidence collected from Japanese companies. Thus, I aim not only to explore every aspect of Japanese companies and their workplaces but also to generalize and theorize management issues by observing these companies.

Some readers may wonder why I am publishing a book on Japanese companies and their management and organization when they seem to be ailing and their presence is not remarkable in the global business arena. I have written and published this book for several reasons. First, management studies should not be faddish. Management scholars are attracted to success stories about companies or to in-vogue management techniques as they jumped on the Japanese management bandwagon in the 1980s and early 1990s. However, management scholars should be responsible for studying not only successful companies and popular management ideas but also what is going on in actual or seemingly unsuccessful companies. They may discover “something new” by studying successful companies and fashionable management ideas; but even in actual or seemingly unsuccessful companies and outdated management ideas, they may also capture “something important” which they might not figure out through studying successful companies or management ideas that are in vogue. Japanese companies have tried to transform in the face of woes that companies in the rest of the world have not yet experienced. Thus, it is highly likely that management scholars would capture something important or significant to an understanding of both management theories and practices by studying what Japanese companies have done (and how) over the past decade or longer.

Second, and related to the previous point, management scholars are required to study companies, regardless of their success or failure, not just in the short term but also over a long period so that they can enhance our understanding of these firms’ management and organization. In Japanese companies’ glory days, Japanese styles of management influenced business leaders and scholars. These Japanese companies undeniably shaped, and left their deep footprints on, the history of management theories and practices. Thus, it is pointless to stop studying or documenting Japanese companies and their management and organization.

Third, business leaders and even public policymakers outside Japan can draw and learn lessons from the experiences of Japanese companies
over the last decade or more. Thus, an important task for management scholars is to document these experiences. Companies in emerging economies such as China and India have enhanced their presence in global business settings in recent years as they have enjoyed these economies’ rapid and continued high growth. However, these economies will not continue to develop forever; their growth will stop sometime in the future. Then, companies in these emerging economies may face the same problems that Japanese companies have experienced over the past decade or so. If so, they might be able to learn how to address these problems from Japanese companies’ experiences and efforts. I hope that by reading this book, readers, including business leaders, scholars, students, and even the general public around the world, will be able to gain an understanding of the transforming landscape of Japanese workplaces. I hope that they will also be able to draw and learn lessons from Japanese firms’ experiences and to understand what they should do (and how) in the future in the face of challenges such as those that Japanese companies have faced.
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